



e-ISSN: 2319-8753 | p-ISSN: 2320-6710

IJIRSET

International Journal of Innovative Research in
SCIENCE | ENGINEERING | TECHNOLOGY

INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH

IN SCIENCE | ENGINEERING | TECHNOLOGY

Volume 10, Issue 2, February 2021

ISSN INTERNATIONAL
STANDARD
SERIAL
NUMBER
INDIA

Impact Factor: 7.512

9940 572 462

6381 907 438

ijirset@gmail.com

www.ijirset.com

Function of Indian Banks in Ushering Financial Inclusion of Rural Sector

Pranay Bhutada

PhD Student, VMV Commerce, JMT Arts & JJP Science College, Nagpur (Maharashtra), India

ABSTRACT: The banking sector plays a vital role in ushering the economically excluded people to the mainstream or modern financing structure as the schemes and services of the government and central bank for financial inclusion is carried out in this sector. In effect for further enhancing the ease of access to banking and credit, an extensive network of Non-Banking Finance Corporation (NBFC) and Banking institutions were established over time since independence. The modern financial system comprising of Commercial Banks (CB), Regional Rural Banks (RRBs), Scheduled Co-operative, Urban Co-operative Banks (UCBs), Primary Agricultural Credit Societies (PACS), Payment Banks and Post Office Payment Bank serves the financial needs of the society. The key steps taken by the Central Bank (RBI) and the Government for the promotion of inclusive banking since the late 1960s have measurably ameliorated the participation in the modern financial system. Ostensibly, the financial sector's reach in the traditionally sidelined sections is seen to be lethargic. In the words of RBI Deputy Governor K.C. Chakrabarty, "the role of the Indian banker is challenging. At one end of his spectrum lies the need to achieve financial inclusion as nearly 50% of the population is yet to be covered under the formal system of banking and at the other end lies the task to fulfill the needs of the existing customer," while speaking at CII Conference. This article endeavors to study the role of banks in the financial inclusion process.

KEYWORDS: Non banking Finance Sector, RBI, Commercial Banks, Financial Inclusion, Rural sectors

I. INTRODUCTION

India has a long record in development of banking sector. Post-independence, the focus of the Government and the Central Bank was to create an efficient all-inclusive banking system which would sustain the planned economic progress by implementation of requisite assets-capital and channeling them into potent sectors. Financial ostracization is the main reason behind destitution. Barring financial ignorance, financial exclusion in rural areas is principally caused by inadequate opportunities to access financial systems. Financial exclusion turns out to be a major hurdle in advancement of Indian economic growth. Introduction to financing sector to the destitute, historically ostracized communities and unprivileged group is fundamental to alleviate poverty and reform society. A key reason behind the tremendous amount of the rural populace still being below poverty line inadequate opportunities and access to financial institutions besides financial illiteracy. Multiple policies were formulated post-independence in which the banking system played a vital role. The benefits of economic growth were being distributed in a holistic manner, strategized by the purpose of Financial based services to the public at wide scale resulting overall development of the country. The modern financial system consisting of Commercial Banks, Regional Rural Banks (RRBs), Urban Co-operative Banks (UCBs), Primary Agricultural Credit Societies (PACS), Scheduled Co-operative Banks, Payments Banks and Post Office Payment Banks serves the wants of the people subscribing financial services.

Banking sector plays as a catalyst in creation of path for financially excluded people to organized financial sector as policies drafted by the government and central bank for fulfilling the objective of financial inclusion via banking sector. Mangalam became the first village in India where all households were provided with banking facilities.

II. OBJECTIVES OF THE STUDY

The primary objectives of the study are:

1. To study the creation of a path for financially excluded people to the organized financial sector.
2. To study the significant route undertaken by RBI till now in the perspective of bringing Financial inclusion in rural areas.



Why is Financial inclusion required in rural areas and its significance today

Financial inclusion helps in achieving the sustainable development of the country, through available financial services to the unprivileged people with the help of financial institutions. Financial inclusion may be defined as the process of ensuring access to financial services and credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (By Dr. C. Rangarajan Chairman of The Committee on Financial Inclusion.).

By inclusion of people in the organized financial system:

- Financial inclusion promotes economic development as it enlarges the resources of the financial system by developing a habit of savings among rural population. It also protects their wealth and other resources in demanding situations through the abuse of poor sections by the money lenders by providing ease of access to formal credit.
- Make everyday transactions, including transfer of money.
- Maintain savings, which can assist in households managing their cash flow, usage and building of working capital.
- It will benefit rural masses to get access in banking with traditional and modern services like cash receipts, cash payments, balance enquiry and statement of account which can be completed using biometric authentication. In addition, it provides an online receipt to the customer for completion of service.
- Induction of cashless economy as more money is brought into the banking ecosystem
- It has vitalized capital formation in the country thus giving it an economic boost.
- Direct benefit transfers to beneficiary bank accounts will become easier. Financial inclusion will ensure the benefits reach the destination directly rather than being drawn off along the route.
- Financing micro enterprises and small businesses, assisting owners invest assets and expansion of their enterprises; amelioration of overall welfare of rural masses.
- Readiness of adequate and transparent credit channels from formal banking channels will enhance the results and bringing affluence by encouraging the entrepreneurial spirit of the masses.

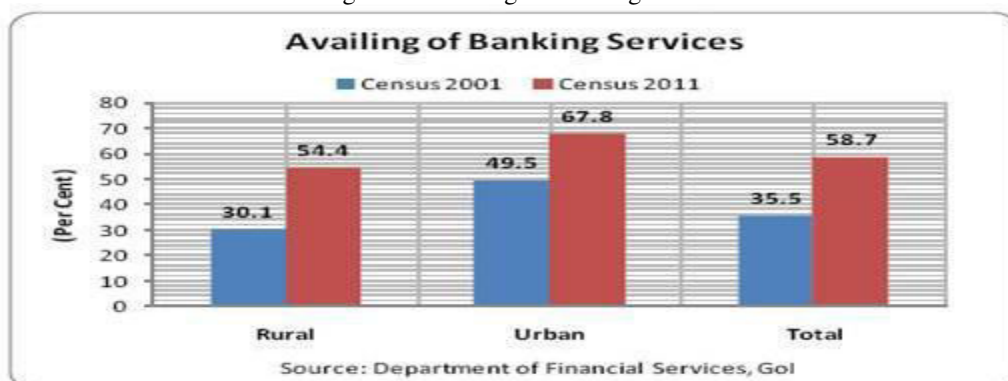
In the 21st century, India has taken the right path to advance Financial inclusion and economic citizenship through medium of its own transactions to smoothen the system. Therefore, it can be said that Financial inclusion will introduce the next revolution in progress and prosperity. The journey of India on economic development depends on how the 65% unbanked population of India is included within the financial infrastructure.

The fruits of financial inclusion are not only important for individuals but for economies as well. Financial inclusion is linked to a country’s economic and social development. It plays a pivotal role in diminishing extreme poverty.

India and Financial Inclusion

As per census 2011, only 58.7% of households are availing banking services in the country. However, as compared with previous census 2001, banking services availed by rural and urban population increased significantly.

Figure 1: Availing of Banking Services



Source: Government of India Population Census 2011



According to NSSO 59th Round Survey Results shows about 51.4% of farmer households are financially excluded from both formal/informal sources. Out of the total farmer households, only 27% gain access to the formal sources of credit; One third of this group also borrowed credit from non-formal sources.

Overall, 73% of farmer households does not have the access to formal sources of credit.

Across regional area perspective, the Financial exclusion is more acute in zones of Central, Eastern and North-Eastern. All those three zones together accounted about 64% of monetarily excluded farmer households in India. Overall indebtedness to formal sources of finance of these three zones totaled for only 19.66%.

III. STEPS TAKEN BY INDIAN GOVERNMENT FOR FINANCIAL INCLUSION

A) Pradhan Mantri Jan Dhan Yojana

Pradhan Mantri Jan Dhan Yojana was launched at a massive scale to bring all citizens of the country under the purview of banking system, irrespective of their financial background or regional location. The scheme aims to link every Indian in the rural as well as urban sector to the mainstream banking system. Under this scheme, any individual whose age is 10+ years of age and does not have a bank account can make one in his/her name with deposit amount of zero while opening. Accounts under this scheme can be opened with any registered bank or business correspondent outlet (Bank Mitra) designed specifically to promote account opening under the Jan Dhan Khata Scheme. The is a social policy scheme aimed at facilitating banking services also for them who cannot maintain minimum account balance while creating account.

To control public to borrowings from Schedule Banks to lend fix amount in priority sector at affordable rate of interest along with the government schemes such as – Pradhan Mantri Mudra Yojana, Pradhan Mantri Awas Yojana were also commenced.

B) Pradhan Mantri Fasal Bima Yojna

This is general insurance for crops and this scheme started from Feb 2016 by the NDA Government and replaced the earlier scheme of UPA government named "National Agricultural Insurance" with few more advantages for farmers like low premium on crop insurance, use of technology for weather forecasting (remoting sensing satellites, smartphones, drones), claim for future generation and post-harvest benefits, etc.

C) Business Correspondent Model

Under this model financial institutes appoint the commission agents who provide financial services at the doorstep of the public specifically which are not able to open branches in the remote areas with a low cost resulting large customer base. Hence, this model is also coined as the cost-efficient model.

D) Swabhiman Campaign

"Swabhimaan" is termed as the path-breaking initiative by the 'Union Government and Indian Banks' It is an association to bridge the economic gap between rural and urban India. This campaign aims at the creation of socio-economic equality through the involvement of unprivileged segments of the Indian population. The concept for this program is the social application of modern technology.

E) BSBDA

Later, in 2012, with Financial inclusion drive gaining higher impetus, the RBI has swapped 'No Frills account with Basic Savings Bank Deposit Account (BSBDA).

The distinct feature of BSBDA is that basic banking services like transferring money and savings can be availed with a streamlined KYC norm. The account can be created and maintained with zero balance. Similarly, under PMJDY, the bank account offered is BSBDA.

F) Pradhan Mantri Jeevan Jyoti Yojna

It is a life insurance scheme from age of 18 to 50 years (benefit until the age of 55 years) at a premium of Rs 330 INR + (18% GST). It provides a cover of 2 lakh Rs, done through LIC India on behalf of the government. Pradhan Mantri Surksha Bima Yojana – commenced on Jan 2015 for accidental insurance and covers up to 2 lakh INR in case of death and 1 lakh INR in case of physical disability. The premium charged at 12 INR + (18% GST) for the age group of 18 to 70 years, done through HDFC Life on behalf of government.



G) Financial Stability Development Council

It has explicit mandate to focus on Financial inclusion & financial literacy simultaneously, RBI has issued revised guidelines on financial literacy centers on 6th June 2012. Further, National Strategy for Financial Education (NFSE) for the period 2020-25 intends to realize the vision of financially aware and empowered India by helping with knowledge, skills, banking habits to manage money for betterment of future.

H) No Frill Account

A no-frills account is a bank account that can be created and maintained with a nil balance, levies zero or nominal charges and deals with the unnecessary services or frills. This account has limitations regarding facilities offered. Once this limit is crossed, the bank levies for the services rendered.

I) New Models of Banks

On Recommendation of Nachiket Mor Committee the several measures taken like inauguration of two special kinds of banks in India which are:

Payment banks- The major objective of the payments bank is to extend the spread of payment and financial services to small business, low-income households, and migrant labor workforce in secured technology-driven environment. These banks will have an option for only accepting deposit from public but will not lend loans. These payment banks will provide payment services and deposit products to its target customers which will be small businesses and low-income households. With payments banks, RBI seeks to increase the penetration level of financial services to the remote areas of the country.

Small finance banks- Small finance banks are kind of niche banks in India. Banks with a small finance bank license can provide basic banking service of acceptance of deposits and lending. These will provide banking products to the unserved and underserved sections of the country, which includes small and marginal farmers, micro and small industries, along with other organized sector entities, at an affordable cost.

IV.SUGGESTIONS

- a) Reduction in Cash Reserve Ratio & Repo Rate by the RBI, it will give rise to liquidity to banks. This might increase banks capacity to provide handsome credit to customers at their requirements.
- b) In case of No Frill Accounts, it should be more functional with attractive schemes. The banks should offer credit cards with less security, specific interest rates, lessen documentation for loans and short-term credit, reduce processing time and enhance the efforts made by Financial Literacy and Counseling Centre.
- c) Banks should ensure consumers satisfaction and deliver services at doorstep or conveniently whatever is possible. Collection centers should be multiplied for ease.
- d) Mobile device with biometric authentication can promote cashless payments & prevent the need for cards which have high cost and maintenance, carrying issue.
- e) Offering cashbacks on prompt payments of credit or early payback discount scheme to attract customers a while.
- f) Banks can offer lenders with exit schemes option in repayment of debts by installment methods by daily/ weekly /monthly as per their conveniences with rebates.

V. CONCLUSION

Performance of banks under the financial inclusion program in the rural sector as of March 31, 2020, numbered 5,99,217. The total banking outlets remained as 67,694 in 2010 which rose to 5,97,155 in 2019 which itself speaks a tremendous growth in a decade. The number of BCs location covered in urban areas stands up 447 in 2010, which turned 4,47,170 in 2019 and 6,35,046 in 2020. It is a significant increment in the number of BCs outlets. During the year 2010, the number of basic savings bank deposit accounts (BSBDAs) was 735 lacs, which became 5742 lacs in 2019 and 6004 lacs in 2020.



The number of KCC was 240 lacs during 2010, which switched to 491 lacs in 2019 and 475 lacs in the year 2020. Further revealed that 270 lacs transactions were carried out in BC-ICT accounts at the end of March 2010, which became 21,019 lacs by 2019 and 32,318 lacs by March 2020.

As of September 30, 2019, about 4,87,496 (99.2%) out of 4,91,490 identified villages with a population less than 2000, have been provided banking services, out of 8687 identified villages with a population more than 5000; 8200 (94.4 %) has provided banking services

Reserve Bank of India's vision for 2020 is to open nearly 600 million new customer's accounts and services by a variety of channels.

REFERENCES

- 1) Burgess R, Pande R (2003) Do rural banks matter? Evidence from the Indian Social Banking Experiment. London school of Economics 95: 790-795.
- 2) Kochhar Sameer, Chakrabarty K. C, Rangarajan C, Speeding Financial Inclusion, Mumbai, Academic foundation,2010.
- 3) Thorat U (2008) Inclusive growth: The role of banks in emerging economies. Economic Developments in India, Academia Foundation.
- 4) Thorat U (2007) Financial inclusion - the Indian Experience.
- 5) Swamy V, Vijayalakshmi (2002) Role of Financial Inclusion for Inclusive Growth in India -Issues and Challenges.
- 6) Sendhilvelan M, Karthikeyan K (2006) No frills account: A basic drive for financial inclusion.
- 7) Fernando N (2007) Low-income households' access to nancial services: International experience, Measures forImprovement, and the Future.
- 8) Sarma M (2007) Index of Financial Inclusion, ICRIER, New Delhi.
- 9) Basu P (2008) Improving access to finance for India's rural poor.
- 10) Narayan (2011) Fund to Boost Financial Inclusion in the Works.
- 11) Sujhata B, Financial Inclusion concepts & strategies, New Delhi, ICFAI Publishers,2010.
- 12) <http://www.rbi.org.in/Scripts/AnnualReportPublication.aspx?year=2020> 113-116.



INNO  **SPACE**
SJIF Scientific Journal Impact Factor

**Impact Factor:
7.512**

ISSN INTERNATIONAL
STANDARD
SERIAL
NUMBER
INDIA



INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH

IN SCIENCE | ENGINEERING | TECHNOLOGY

 **9940 572 462**  **6381 907 438**  **ijirset@gmail.com**



www.ijirset.com

Scan to save the contact details